



JAMES A. NOYES, Director

# COUNTY OF LOS ANGELES

## DEPARTMENT OF PUBLIC WORKS

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IN REPLY PLEASE  
REFER TO FILE: **PJ-2**

November 21, 2002

TO: Each Supervisor

FROM: James A. Noyes  
Director of Public Works

**PROPOSED AGENDA DATE: DECEMBER 3, 2002**  
**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT**  
**APPROVE BUDGET MODIFICATIONS**  
**AWARD CONSTRUCTION CONTRACT**

Attached is a fact sheet summarizing the main points to be covered in the Board letter we filed for the December 3, 2002, agenda for the LAC+USC Medical Center Replacement Project.

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Attach.

cc: Chief Administrative Office (Sharon Yonashiro)  
Department of Health Services (Fred Leaf)

**FACT SHEET**

**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT  
APPROVE BUDGET MODIFICATIONS  
AWARD CONSTRUCTION CONTRACT  
PROPOSED AGENDA DATE: DECEMBER 3, 2002**

**Request**

1. Approve the revised project budget of \$820,558,000, an increase of \$2,558,000 mainly due to purchase of medical equipment.
2. Award and authorize the Director of Public Works to execute a construction contract with McCarthy, Clark, Hunt, a Joint Venture, in the amount of \$497,883,000.
3. Approve the CAO's plan to manage the County's exposure to earthquake damage during project construction through a program of self insurance, funded on an as-needed basis through the issuance of short-term financing.

**Description**

**Revised Project Budget**

The \$2,558,000 increase in the project budget from \$818,000,000 to \$820,558,000 will:

1. Recognize credits for fees previously paid to DWP and OSHPD by the County for the previous 946-bed project.
2. Adjust the various sub-accounts within the total budget to account for a favorable construction bid.
3. Shift a portion of the equipment procurement costs from Health Services to the project budget and a portion of the furniture costs from the project budget to Health Services.

**Award of Construction Contract**

The recommended award of the construction contract to MCH in the amount of \$497,883,000 will allow construction to commence. Although Public Works only received a single bid for this work, it is within the fair construction cost estimate range approved by your Board and is within one and one-half percent of our reconciled fair construction cost estimate.

### Management of Earthquake Risk During Project Construction

It was determined that insurance coverage for acts of terrorism is no longer available at reasonable premiums, and earthquake coverage for the full value of the project is not available from reputable insurance companies worldwide.

An analysis indicated that the cost of requiring the contractor to carry earthquake coverage at a minimum \$50,000,000 would likely increase the bid by as much as \$30,900,000 when the maximum probable cost of damage from a maximum credible earthquake would be \$27,900,000.

The recommended plan would self-insure this risk by providing appropriation to cover the estimated probable risk, which increases from \$2,800,000 to \$27,900,000 through the life of construction, and would only be funded in the event that damage occurs from an earthquake or acts of terrorism.

### **Financing**

The revised project budget of \$820,558,000 will be funded in part through \$470,800,000 in Federal and State disaster aid monies and grants and \$1,000,000 in miscellaneous revenue. In addition, approximately \$17,310,000 of the project costs were paid as part of the 946-bed replacement facility including acquisition costs and deposits made to the City of Los Angeles Department of Water and Power and the Office of Statewide Health Planning and Development.

The balance will be financed through a combination of short-term commercial paper and long-term bonds managed by the Treasurer and Tax Collector.

Significant one-time startup costs are anticipated for the new facility, including up to \$105,000,000 in nonfixed medical equipment, furnishings and furniture; up to \$90,000,000 to \$100,000,000 for the development, procurement, and installation of an integrated electronic medical records system; and between \$25,000,000 to \$35,000,000 for moving and transition costs. Health Services will be refining the requirements and cost estimates for all of the one-time costs and, in conjunction with the CAO, developing a funding strategy to accommodate the one-time startup costs. Health Services and the CAO will report back to your Board when the funding strategy has been determined.

In July 1998, operating cost savings at LAC+USC Medical Center resulting from the project were estimated at approximately \$86,000 000, excluding the costs of increased debt service resulting from the project. Based on Health Services' ongoing System Redesign, it is currently anticipated that any operating cost savings from the project will be utilized to pay debt service costs or will be realized as part of the System Redesign prior to the actual opening of the new facility. The impact of the project on operating costs will be reevaluated upon approval and implementation of the System Redesign.

### **Justification**

The single lump sum low bid of \$497,883,000, received from MCH on September 12, 2002, for construction of the project, was within the range budgeted, within approximately one and one-half percent of the reconciled fair market estimate prepared by our consultants, and was found to be fair and reasonable.